

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**A REVIEW OF LOS ANGELES COUNTY'S IMPLEMENTATION
OF THE GREATER AVENUES FOR INDEPENDENCE PROGRAM**

**A Review of Los Angeles County's Implementation
of the Greater Avenues for Independence Program**

P-919, February 1991

**Office of the Auditor General
California**



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P-919

Honorable Robert Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning Los Angeles County's (county) implementation of the Greater Avenues for Independence (GAIN) program. The report indicates that the county complied with state and county requirements in awarding a contract to MAXIMUS, Inc., for the performance of GAIN case management services. Furthermore, MAXIMUS, Inc., is performing case management services within the standards established by the county and does not exercise discretionary authority in the performance of its services.

Respectfully submitted,

A handwritten signature in cursive script, reading "Kurt R. Sjoberg".

KURT R. SJOBERG
Auditor General (acting)

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Summary

Results in Brief State law requires that employment and training opportunities be provided to all applicants for, and recipients of, Aid to Families With Dependent Children (AFDC), who are not otherwise exempt, through the Greater Avenues for Independence (GAIN) program. A portion of Los Angeles County's (county) GAIN program, case management services, is administered by a private contractor, MAXIMUS Incorporated (MAXIMUS). During our review of the county's administration of the GAIN program and MAXIMUS' provision of case management services, we found the following conditions:

- The county complied with state guidelines and regulations and with county policy in the design and implementation of its GAIN program and can provide the 14 mandated services of the 17 GAIN services allowed by law;
- In the award process for the MAXIMUS contract, the county complied with the state contracting requirements and the county contracting policies that we reviewed;
- According to both federal and state reviews, the county's contractual obligations with MAXIMUS were in compliance with state and federal regulations. Following these determinations, the county continued to clarify its instructions to MAXIMUS. In particular, the county ensured, through policies contained in its Policy Interpretation Handbook, that all discretionary

decisions concerning the AFDC and GAIN benefits received by GAIN participants were made either by county employees, the GAIN participant, or automatically through the county's GAIN Employment Activity Reporting System (GEARS);

- MAXIMUS is providing the services required by its contract and is generally within the range of acceptable performance as outlined in the contract's work statement; and
- The county could not utilize \$14.4 million of the \$45.4 million in state and federal funds allotted to it for GAIN services by the Department of Social Services for fiscal year 1989-90 because of a state budget restriction and county policy that limited the expenditure of those funds. As a result, the county could refer only 10,600 (53 percent) people out of approximately 20,000 people whom it estimated it could have served during fiscal year 1989-90.

Background The GAIN program was enacted on September 26, 1985, to provide employment and training opportunities to applicants for, and recipients of, AFDC. Each county was required to formulate and submit a county plan to implement the program by September 1987. The entire program was required to be fully operational statewide by September 1988.

Los Angeles County was the 53rd county out of 58 counties in the State to implement the GAIN program, becoming operational on November 1, 1988. The county is currently capable of providing the GAIN program to eligible GAIN participants through 20 contracts for GAIN services.

**The County
Implemented
Its GAIN Plan
and Can
Provide
Most GAIN
Services**

The county complied with state law and county policy in the design and implementation of its GAIN program, which can now provide the 14 mandated services of the 17 GAIN services allowed by law. (The 3 remaining services are optional.) The county also encouraged the use of contractors if such use proved economical or feasible. It utilized contractors to provide most of the GAIN services, including the use of MAXIMUS for the provision of case management services. In the award process for the MAXIMUS contract, the county complied with the state contracting requirements and county policies that we reviewed. For example, it conducted a competitive bid for the contract and completed a cost analysis comparing its costs for case management against MAXIMUS' costs. In addition, the county has established a monitoring system to ensure that MAXIMUS and the other GAIN contractors comply with state and federal requirements. Moreover, despite challenges to the award of the MAXIMUS contract, we found that both the state and federal agencies responsible for the program and the Superior Court of California determined that the contract was in compliance with state and federal program regulations. Following these determinations, the county continued to clarify its instructions to MAXIMUS. In particular, the county ensured, through policies contained in its Policy Interpretation Handbook, that discretionary decisions concerning the AFDC and GAIN benefits received by GAIN participants were not assigned to MAXIMUS case managers but were made by a county employee, the GAIN participant, or automatically through the GEARS.

**MAXIMUS Is
Generally
Complying
With Its
Contract**

The county contracted with MAXIMUS to provide case management services for a three-year period commencing August 1, 1988. The contract requires MAXIMUS to provide the linkage between the county's GAIN participants and the GAIN services required by law. We found that the county monitors MAXIMUS' provision of services and has assessed penalties against MAXIMUS of \$2,300 for the first year of operation for exceeding the acceptable rates of performance allowed in the

contract. However, the county did not consider the penalties to be excessive given MAXIMUS' total exposure to penalties of more than \$100,000 per month. Moreover, during our review of 48 participants' case files randomly selected, we found that MAXIMUS is generally providing the level of GAIN services required by its contract with the county but not always as quickly as the contract requires.

**The County's
Ability To
Spend Its
Total Funding
for the GAIN
Program Was
Limited**

The county's ability to spend all of its state and federal funding for the GAIN program for fiscal year 1989-90 was limited because of a state budget restriction and county policy. Specifically, out of total funding of \$45.4 million for the provision of all GAIN services for the year, the State would not allow the county to spend more than \$7.9 million of these funds for GAIN case management services. Furthermore, the county had a policy of not spending county funds for programs required by the State. This policy prevented the county from augmenting case management services. Because of the county's limited case management services, it could refer only 10,600 (53 percent) people to the GAIN program out of approximately 20,000 people whom it estimated it could have served during fiscal year 1989-90. Thus, it could justify an allocation of only \$31 million of the \$45.4 million available, leaving \$14.4 million unclaimed. Of the \$14.4 million in unclaimed funds, approximately \$7.2 million was from federal funding, which cannot be reclaimed by the State.

**Agency
Comments**

Both the Department of Social Services and the Los Angeles County Department of Public Social Services concur with our report.

Introduction

The Greater Avenues for Independence (GAIN) program was enacted on September 26, 1985, and provides employment and training opportunities to applicants for, and recipients of, Aid to Families With Dependent Children (AFDC). As specified in the Welfare and Institutions Code, all applicants for and recipients of AFDC benefits, not otherwise exempt, are required to register for the program. Those who are declared exempt are permitted to participate voluntarily.

To implement the GAIN program, each county was required to formulate and submit a county plan by September 1987 and the program was required to be fully operational statewide by September 1988. Each county was required to formulate its plan with the cooperation of local community college districts, county offices of education, and local private industry councils to ensure that each plan reflected available resources and local job market needs.

Los Angeles County (county) was the 53rd county out of 58 counties in the State to begin GAIN operations, becoming operational on November 1, 1988. The county is currently providing GAIN services to participants through five regional offices located throughout the county. It estimates that as many as 115,000 AFDC recipients will ultimately participate in the program when it is fully operational. As of June 30, 1990, approximately 21,700 recipients had been referred to the program, and 4,200 had entered employment.

**Scope and
Methodology**

The purpose of our audit was to review the county's case management contract with MAXIMUS Incorporated (MAXIMUS) and the implementation of its GAIN program to ensure that it has adhered to state laws regarding the provision of GAIN services. Specifically, we focused on the county's contract with MAXIMUS, the county's monitoring of the services provided under the MAXIMUS contract, the county's 20 other vendor contracts for the services required by GAIN statute, and the county's overall implementation of the GAIN program.

To determine whether the information that we reviewed regarding the provision of GAIN services was accurate, we conducted a limited review of the two county computer systems that are used in the provision of GAIN services, the Integrated Benefits Payments System (IBPS) and the GAIN Employment Activity Reporting System (GEARS). We began our review by comparing the information contained in county AFDC case files with information entered into the IBPS by county workers. We then reviewed the general controls over the IBPS and performed transaction tests to examine the reliability of the system to process the data that is then passed on to the GEARS. Following our review of the IBPS, we conducted a limited review of the general controls and the reliability of the data within the GEARS. This review included a comparison of the information contained in randomly selected cases in the GEARS with information in case files maintained by the county. Based upon our review of the IBPS and GEARS, we are confident that the data contained within the GEARS could be relied upon for the tests that we conducted.

We examined the contract process used by the county in its procurement of a contractor for case management services to ensure that it adhered to guidelines from the Department of Social Services (department) and to ensure that the department followed state policy in reviewing and approving the contract. As part of our review, we examined the Request for Proposal issued by the county to prospective bidders, the evaluation process of the bids received, and the evaluation summary from which the county

decided to contract with MAXIMUS. In addition, we evaluated the cost analysis used by the county when it determined MAXIMUS' ability to provide case management services for less cost than the county under similar caseloads.

To determine whether MAXIMUS is providing the case management services required by its contract, we compared information in a random sample of 48 GAIN case files with the requirements in the contract. Moreover, to determine whether the county is capable of ensuring that MAXIMUS is providing the services required by its contract, we also reviewed the county's monitoring system of the services MAXIMUS provides.

To respond to a legislative concern about whether MAXIMUS case managers are making discretionary decisions that are prohibited by federal statute, we reviewed a federal guideline that outlines what would or would not be a discretionary decision during a case review of an AFDC recipient. We also reviewed changes that the county made to its Program Interpretation Handbook as a result of the review of the MAXIMUS contract by the Family Support Administration of the federal Department of Health and Human Services. The handbook provides instructions to MAXIMUS case managers.

We reviewed the county's delivery of GAIN services as required by Section 11320 et seq. of the Welfare and Institutions Code. Specifically, to ensure that the county could provide each of the required GAIN services, we reviewed the contracts that the county had in place. In addition, we reviewed the case files of selected groups of GAIN participants, including the 48 participants in our random case file review, to ensure that the services were actually being provided. Finally, we identified the monitoring process the county has in place to monitor the services by vendors other than MAXIMUS. However, we did not test the effectiveness of the county's monitoring of the vendors.

Finally, we reviewed the county's overall implementation of the GAIN program, including the number of participants referred by the county to the program during fiscal year 1989-90. We also compared the county's actual expenditures with the county's allocation for fiscal year 1989-90. In addition to this comparison, we examined the different ways the county could have implemented its program and the effect of county policy and state budget act restrictions on the county's ability to fully utilize its GAIN funding for that fiscal year.

Chapter 1 Los Angeles County Complied With State Law and Its Own Policy In Designing and Implementing a County Plan That Provides Most of the GAIN Services

Chapter Summary

Los Angeles County (county) complied with state law and county policy in the design and implementation of its Greater Avenues for Independence (GAIN) program and is capable of providing the 14 mandated services of the 17 GAIN services allowed by law to eligible recipients of Aid to Families With Dependent Children (AFDC). County policy also encouraged the use of contractors if such use proved economical or feasible, and the county's GAIN plan included the use of private contractors for the provision of most of the required GAIN services, including the use of MAXIMUS Incorporated (MAXIMUS) for the provision of case management services. Furthermore, in the award process for the case management services contract, the county complied with the state contracting requirements and county contracting policies that we reviewed. In addition, despite challenges to the award of the contract to MAXIMUS, we found that both the state and federal agencies responsible for the program and the Superior Court of California determined that the county's contract with MAXIMUS was in compliance with state and federal regulations for the program. Even though it was determined that the county was in compliance, the county continued to clarify its instructions to MAXIMUS. In particular, the county ensured, through its Policy Interpretation Handbook, that discretionary decisions concerning the AFDC and GAIN benefits received by GAIN participants were not assigned to MAXIMUS case managers but were made by county employees, the GAIN participant, or through computations made automatically by the county's case management computer tracking system, known as the GAIN Employment Activity Reporting System (GEARS).

**The County Is
Providing
Most GAIN
Services**

Section 11320.6(b) of the Welfare and Institutions Code requires each county welfare department, with the cooperation of community college districts, county offices of education, and local private industry councils to design a plan to provide services to GAIN participants. Furthermore, Section 11322 of the Welfare and Institutions Code requires that this plan be submitted to the Department of Social Services (department) for approval and that the plan be revised annually. Finally, Sections 11322.6, 11322.8, and 11323.2 of the Welfare and Institutions Code specify 17 program services that counties can provide to GAIN participants although department regulations make 3 of these services voluntary. The services cover three categories: job services, training and education, and supportive services. The county is currently capable of providing all 14 of the mandated services, contracting out for most of them. It has 20 contracts in place to provide 12 of these 14 services. The following table lists each of the entities or primary contractors responsible for the provision of these required services in Los Angeles County.

**Required GAIN Services and the Contractors
Providing Them for Los Angeles County**

Services	Contractors
Training and Education	The City of Inglewood The City of Pasadena The Department of Community and Senior Citizens Services The Superintendent of Schools, County Office of Education (three separate contracts) Los Angeles Unified School District Los Angeles Community College District
Supportive Services	Mexican American Opportunity Foundation Child Care Resource Center of the San Fernando Valley Crystal Stairs, Inc. Child and Family Services Pomona Unified School District Options - a Child Care and Human Services Agency Child Care Information Service Children's Home Society of Southern California Connections for Children EQUIPOISE, Inc. The Information and Referral Federation of Los Angeles County
Job Services	State of California, Employment Development Department

The county provides the remaining two of the 14 mandated services, the provision of transportation and ancillary expenses, through its case management contract with MAXIMUS. The county has not yet implemented the 3 voluntary services: grant diversion, supported work, and transitional employment.

To determine whether the county was delivering the 14 mandated GAIN services, we reviewed a random sample of 48 case files in the GEARS. Through this review, we verified the provision of 5 services required under GAIN statute: Job Club; adult basic education; child care; the payment of transportation costs; and the reimbursement for ancillary expenses. Because not all services are provided to all participants, we requested GEARS listings and documentation of GAIN participants in the remaining 9 service areas. Through this review, we verified that the county is providing 8 of the remaining 9 services that the department requires. The 8 services are unsupervised job search, job training, courses in English as a second language, personal counseling, community college education, job placement, job development, and employment counseling.

We could find no evidence that the remaining service, basic and advanced pre-employment preparation, has been provided to any GAIN participant. GAIN statute requires the completion of these preparation assignments by participants who do not successfully complete training or education to which they are assigned or who remain unemployed after the completion of their assigned training or educational services and their 90-day job search period. According to the chief of the county's GAIN Planning Division, as of September 7, 1990, the county has not had a situation where these kinds of assignments would be appropriate because there have been no participants who have met the criteria for the assignments. He stated that, when these assignments do become necessary, a request will be made to the responsible contractor to take the necessary action to meet the participants' training needs. (See the appendix for a flowchart showing the various options available to a participant moving through the GAIN program.)

**The County
Encourages
the Use
of Private
Contractors
If They
Prove More
Economical
or Feasible**

Los Angeles County Code, Section 2.104.280, stated that, if a county department believed that work could be performed by independent contractors more economically or feasibly than by county employees, the county department could seek the consent of the county's chief administrative officer to solicit bids or proposals from independent contractors to perform the work. Moreover, the county has a contract development program that requires the identification of program areas in which contracting with the private sector would provide a cost-effective alternative to performing the work with county employees.

Based on the county's policy and the language in Section 11320.8 of the Welfare and Institutions Code, which allows counties to provide GAIN services to program participants using contracts with private or public agencies, the county's original GAIN plan called for contracting out almost all of the services required by GAIN statute. The plan resulted in contracts with both public and private organizations for direct and indirect services. For example, three indirect GAIN program activities were awarded to private contractors: computer services for the GEARS were awarded to Systemhouse; fiscal services were awarded to CDS Information Services; and staff development was awarded to MAXIMUS. However, the county planned to provide case management through the county's Department of Public Social Services (DPSS). At that time, the DPSS estimated that it would need 1,008 county staff for the full provision of GAIN case management services to all eligible participants.

During the first quarter of 1988, the county began exploring the possibility of contracting for case management services to avoid hiring additional county staff. On March 28, 1988, the director of the DPSS notified the county's chief administrative officer that the DPSS would continue its GAIN staff recruitment and space and equipment acquisition efforts while concurrently attempting to secure a case management contract. On April 5, 1988, the director of the DPSS notified all of the members of the county's Board of Supervisors that the secretary of the Health and Welfare Agency had agreed that the county could contract for the services. The director further stated that the DPSS would proceed

with an assessment of the feasibility of this plan. According to the director, the dual approach of attempting to recruit GAIN staff while also attempting to secure a contract was necessary because of the impending statutory deadline of September 25, 1988, for GAIN implementation. The county submitted the case management contract to the Department of Social Services for review on August 19, 1988, and on October 26, 1988, the county received written approval from the department to contract for the services.

**The County
Complied
With State
and County
Contracting
Requirements
in Its Award of
the MAXIMUS
Contract**

Section 11320.6 of the Welfare and Institutions Code requires county welfare departments to administer the GAIN program in a manner consistent with the regulations established by the department to implement the program. The department has incorporated its contracting requirements into Section 23-600 et seq. of its Operations Manual (manual). Furthermore, the policy of the county's contract development program requires that each of the county's departments ensure that the award of any contract financed in whole or in part by federal or state funding is in full compliance with all applicable federal or state regulations.

We found that the county took several steps to ensure that the case management contract process complied with state and county contracting requirements. Specifically, the county met the requirements that we reviewed within Section 23-600 et seq. of the department's manual. The county conducted a pre-bid survey of potential contractors, requested and received department review and approval of the Request for Proposal (RFP) before its distribution, and then distributed the RFP to a total of 97 organizations.

Ultimately, five proposals were received by the county by the deadline of June 24, 1988, of which four were deemed to be responsive. The four proposals were from MAXIMUS, Goodwill Industries, Catholic Charities, and the Pacific-Asian Consortium in Employment. To comply with the State's requirement that the county evaluate the proposals, the DPSS convened a five-member evaluation committee consisting of representatives from the County Counsel, the County Auditor-Controller, and DPSS staff with expertise in GAIN operations and contract management.

Each proposal was evaluated according to the terms of the RFP, which required contractors to submit a proposal for the development and delivery of case management services for each region covered by the proposal. MAXIMUS, Catholic Charities, and Goodwill Industries submitted bids for the delivery of services in one region, MAXIMUS and Catholic Charities submitted bids for a second region, and MAXIMUS and the Pacific-Asian Consortium in Employment submitted bids for a third region. MAXIMUS was the sole bidder for the delivery of services in the remaining two regions. In addition, MAXIMUS was the only contractor that bid to provide GAIN case management services for the entire county under a unified proposal. On the basis of MAXIMUS' proposals, the committee rated it with the highest score for each individual region and for the county as a whole. As a result, the committee recommended to the director of the DPSS that the contract be awarded to MAXIMUS.

During June of 1988, the DPSS performed a cost analysis, as required by county policy, to determine whether a contractor could provide GAIN case management services for less money than the county could provide them using county staff. The analysis was updated in August and compared with a cost estimate from MAXIMUS. The comparison concluded that MAXIMUS could provide GAIN case management services for approximately \$540,000 less than the county for the first year of operation. The comparison was subsequently provided to the county's Board of Supervisors and the department in support of the DPSS' intent to contract with MAXIMUS for GAIN case management services.

We reviewed the DPSS' cost analysis, including the basis used to calculate the county's salary costs if the county were to provide GAIN case management services. The county used cost analysis guidelines provided by the county's auditor-controller to determine salary costs for each of the 19 county job classifications considered for GAIN case management services. The guidelines included the use of a salary cost factor of 96 percent of the top salary paid for each position for each of the 19 classifications. This cost factor was not derived from actual hiring lists that had already been established for each of these job classifications. Consequently,

for 2 of the 19 job classifications, we compared the salary costs derived from the county's cost factor with salary costs we derived from two cost factors we developed from the hiring lists. One of our cost factors was based on the assumption that the county would hire only DPSS applicants with the highest current salaries. The other factor was based on the assumption that the county would select both county and noncounty applicants, thus, representing a broader range of salary costs. We conclude from our tests that the savings the county could have expected from contracting with MAXIMUS for case management services varied depending on the method used for calculating the salary costs for county workers performing the same tasks. However, the total estimates under all three calculation methods supported the county's conclusion that it was more cost-effective to award the contract to MAXIMUS than to perform the tasks internally.

We also found that county policy would not necessarily have required the DPSS to provide case management services with county staff rather than contracting for the services even if it had determined that it could have done so for less cost. County Code, Section 2.104.280, allows department directors to seek consent for contracting out under either of two circumstances: the belief that a contractor can perform the work more economically than the county can or the belief that the contractor can perform the work more feasibly than the county can.

**Challenges to
the Award
of the Contract
to MAXIMUS
Were Found To
Be Invalid**

Following negotiations between the DPSS and MAXIMUS, the DPSS submitted the negotiated contract to the department for state approval. On October 26, 1988, the department approved the county's GAIN plan and the case management services contract, and five days later, on October 31, the contract was executed by the County's Board of Supervisors. Following the execution of the contract, the department, on November 28, 1988, submitted it to the federal Family Support Administration (FSA) for its approval. The administrator of the FSA approved the contract on January 18, 1989, pending the elimination of the ability of

MAXIMUS' staff to make discretionary decisions regarding the eligibility for or payment of AFDC benefits. The county subsequently ensured that its Program Interpretation Handbook (handbook) for MAXIMUS case managers forbids managers to make discretionary decisions. MAXIMUS case managers are required to follow the county's handbook, which was prepared and maintained by the county's DPSS and reviewed and approved by the State. The handbook contains procedures that apply state regulations to the local GAIN operation. The FSA and the county reached a final agreement on January 31, 1989.

During the same period of time that the county was seeking state and federal approval of the case management contract with MAXIMUS, the Service Employees International Union filed suit against the county, the State, and MAXIMUS in Superior Court seeking to halt implementation of the contract. The union asserted that GAIN case managers from MAXIMUS were receiving an improper delegation of discretionary duties normally delegated to county welfare departments.¹ On February 28, 1989, the court concluded that the union had failed to demonstrate any illegal or improper delegation of discretionary duties by the county. Moreover, in a review of the contract requested by our office, the Legislative Counsel concluded that a strong inference could be drawn that the contract did not violate state or federal law given that the provisions of the original contract were upheld in court and the amended contract was determined by the appropriate state and federal agencies to be in compliance with state and federal requirements for the program.

¹ The Federal Register defines discretionary decisions as decisions that affect a participant's eligibility for or amount of AFDC support. Such decisions can include determining whether a participant will be allowed exemption from the program, whether a participant had a good cause for failing to comply with the program or for refusing to participate in the program, and whether sanctions should be implemented against the participant.

Even though the Superior Court concluded that the unions had failed to demonstrate any improper delegation of discretionary duties, the county continued to clarify its instructions to MAXIMUS case managers regarding discretionary decisions. The county ensured that discretionary decisions are made only by county employees, the participant, or by automated computations, not by MAXIMUS case managers.

Decisions affecting a participant's AFDC or GAIN services must be made by a county eligibility worker. For example, case managers are now required to submit specific recommendations and documentation to a county eligibility worker for that worker to determine whether a participant can postpone or not participate in the GAIN program. Once the eligibility worker has made a decision, it is communicated electronically to the case manager through the GEARS. The GAIN participant can also make decisions. For example, after the case manager has explained the options available regarding GAIN participation, GAIN participants can make decisions such as choosing service providers from lists of available providers for supportive services and choosing training and educational services. Finally, discretionary decisions can be made by the GEARS, including automatic computations of supportive service expenses, such as child care or transportation expenses.

Chapter 2 The County's Contractor Is Providing Case Management Services in Accordance With Its Contract

Chapter Summary

Los Angeles County (county) contracted with MAXIMUS Incorporated (MAXIMUS) to provide case management services for a three-year period commencing August 1, 1988. The contract requires MAXIMUS to provide the linkage between the county's Greater Avenues for Independence (GAIN) participants and the GAIN services required by law. The contract provides compensation to MAXIMUS, in part, through a two-tiered payment schedule that consists of a fixed fee for certain monthly administrative costs and monthly payments that vary depending on the number of participants served. We found that the county has assessed contractual penalties against MAXIMUS totaling \$2,300 for the first year of the contract for errors that exceeded the acceptable standards of performance allowed in the contract. However, the county does not consider the assessments extraordinary given MAXIMUS' total exposure to penalties of more than \$100,000 per month. Moreover, during our review of 48 participants' case files randomly selected, we found that MAXIMUS is generally providing the GAIN services required by its contract with the county but not always as quickly as the contract requires.

The MAXIMUS Contract

The county contracted with MAXIMUS to provide GAIN case management services to approximately 115,000 potential GAIN participants. According to the terms of the contract, MAXIMUS is to provide case management services for three years, commencing August 1, 1988, and ending July 31, 1991. The services can be extended for two additional years, through July 31, 1993, if the Department of Social Services (department) grants the county a waiver to extend the contract without competitive bid.

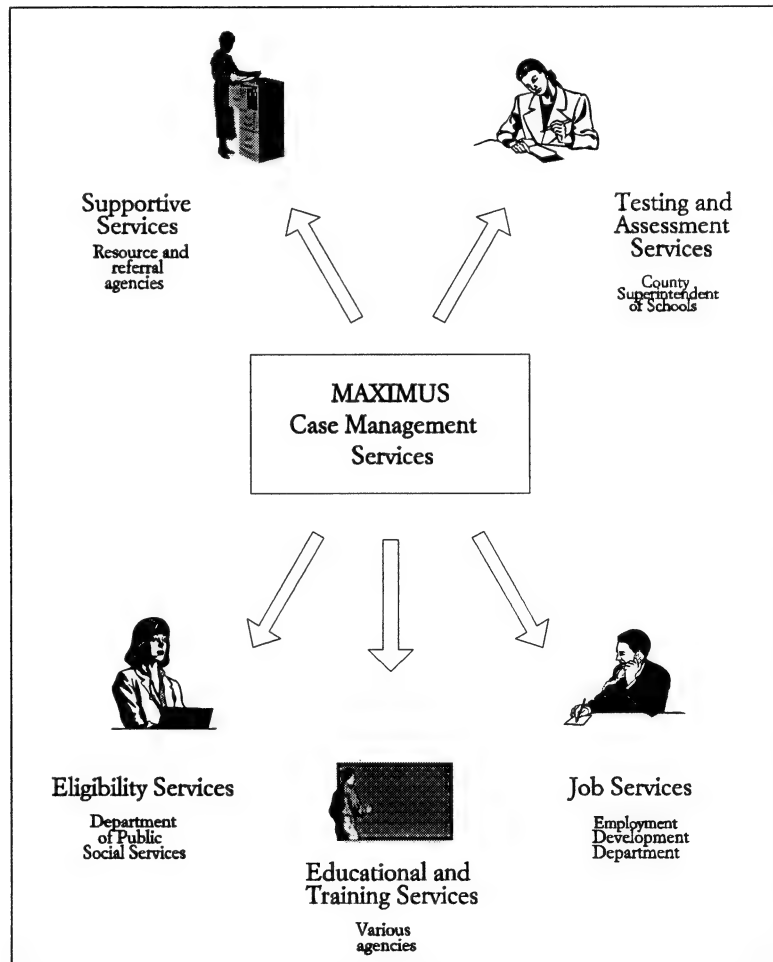
The number of participants that MAXIMUS can expect to have referred to it each month is governed by county projections of total participants for each region per month. The projected number of participants includes new referrals plus the existing caseload, minus the number of participants who have left the program. According to the chief of the county's GAIN Operations Division, MAXIMUS uses these projections to determine the number of staff who must be trained, held, or released to meet the projected demand for case management services. The chief further stated that the projections are driven by the availability of funds for the program and the cost of the other service provider contracts and that participant flow is also subject to change because of a participant's educational and employment needs.

MAXIMUS is compensated for its service, in part, through a two-tiered payment schedule. For the first tier, certain administrative costs are paid as a monthly fixed fee. For example, the contract specifies the salaries for the central management staff and the transition team staff. For the second tier, the costs for each of the county's five GAIN regions are made through a monthly payment that varies depending on the number of participants served. Moreover, there are additional methods of compensation that apply to specific circumstances. For example, if the county's number of referrals is less than 90 percent of its most current referral projection and it has not previously provided MAXIMUS with a 60-day written notice of a reduction of referrals, MAXIMUS is then compensated at the 90 percent level of the county's most current projection for that region for that month once MAXIMUS demonstrates that it incurred costs in anticipation of the county's projected number of referrals. Also, a \$150 fee will be paid to MAXIMUS for each participant who has obtained and retained full-time unsubsidized employment for more than six months with a resulting termination of the participant's Aid to Families With Dependent Children (AFDC) benefits or the reduction of the benefits by at least 50 percent. One hundred dollars of the compensation is paid to the case manager responsible for the participant, and the remaining \$50 is placed in a pool for division among the MAXIMUS administrative staff.

**Case
Management
Requirements**

The county case management contract requires MAXIMUS to provide the linkage between county AFDC recipients and the GAIN services required by law. To facilitate this linkage, MAXIMUS coordinates the assignments of GAIN participants with the service providers under contract with the county. The contractors provide supportive services, educational and training services, and job services necessary to ensure a participant's successful transition through the program. MAXIMUS is required to monitor each participant's progress and resolve any barriers to participation wherever possible. The following illustration shows MAXIMUS' relationship to these GAIN services.

**Illustration Showing MAXIMUS'
Relationship to GAIN Services**



The county's contract with MAXIMUS describes the services that it is required to provide, the manner in which the services will be provided, and the specific performance requirements that it must meet. The services MAXIMUS is required to provide include the following: participating in the initial program orientation for and appraisal of participants; referring participants to appropriate program components; counseling participants; coordinating the initial participant contract; maintaining the information entered into the county's GAIN Employment Activity and Reporting System (GEARS); resolving participant problems and recommending sanctions against participants; attending county and state grievance hearings; determining supportive service payments and overpayments; collecting overpayments; reporting welfare fraud and child and elder abuse; training staff in-house; and providing community contact, complaint procedures, time studies, and administrative services.

According to MAXIMUS, these services are provided by more than 175 staff persons operating out of five GAIN regional offices throughout the county. The staff within each regional office are divided into supervisory units that typically include one GAIN supervisor, six GAIN case managers, and a unit assistant. Each GAIN case manager maintains a caseload of approximately 120 participants and is responsible for guiding each participant through the full range of required GAIN services, as shown in the appendix.

**MAXIMUS
Is Generally
Complying
With Its
Contract**

The county maintains two monitoring groups. Under the direction of the GAIN Operations Division, one group is responsible for monitoring the case management contract to ensure that MAXIMUS maintains an acceptable level of performance. The second group, under the direction of the Contract Management Division, is responsible for monitoring the services provided to GAIN participants by the actual service providers to ensure that the participants receive the services necessary to successfully complete the program.

To monitor the MAXIMUS contract, the county has placed contract monitors at each of the five locations that MAXIMUS uses to provide case management services. The county uses five different formal processes for reviewing and evaluating the quality of MAXIMUS' case management services. The primary method of county review subjects MAXIMUS to systematic monthly case reviews by the county's contract monitors. The monitors review predetermined segments of randomly selected case files from all five regions through the GEARS. In total, monitoring activities can encompass 24 general required services and, according to the county's review process, 300 separate performance standards. According to the terms of the contract, MAXIMUS is subject to financial penalties for noncompliance with the performance requirements outlined in the contract's work statement and can be required to correct the problem before the next scheduled performance review.

The county also receives confidential results from an exit poll that MAXIMUS conducts of GAIN participants to obtain feedback on MAXIMUS' performance. In addition, the county conducts a review process of the contractor's actions if a disagreement arises between a participant and MAXIMUS, provides a formal complaint procedure in accordance with the requirements of the Welfare and Institutions Code, and requires the contractor to maintain an internal quality control program to identify and prevent deficiencies in the quality of service performed.

During our review, we found that the county has assessed penalties against MAXIMUS for exceeding the acceptable standards of performance allowed in its contract for program or procedural errors. Over the term of the first year of the contract, penalties assessed against MAXIMUS totaled \$2,300 for exceeding the number of errors that can be accepted and still meet the contract standards for satisfactory performance. According to the terms of the contract, MAXIMUS can be penalized in \$50 increments for errors that exceed the standards for performance required by the county.

In a letter to MAXIMUS, dated April 10, 1990, the chief of GAIN operations sought to explain the county's view regarding the penalties assessed against MAXIMUS. He stated that the assessments were minimal considering MAXIMUS' total exposure to damages of more than \$100,000 per month. He further stated that, because of the complexity of case management and the very stringent performance standards outlined in the contract, he did not consider the assessments to be extraordinary. Finally, he stated that he believed that MAXIMUS has done a satisfactory job under difficult conditions. In a letter to our staff, the chief further elaborated that the penalty assessments are one of the indications that MAXIMUS is held to more stringent standards than required by either the department or the federal agencies responsible for reviewing other counties or agencies running GAIN programs. Besides the assessment of penalties against MAXIMUS, he outlined other monitoring activities required by the county in excess of state and federal requirements for the program. He stated that these additional activities included the following measures: monitoring the case management contractor for all GAIN activities, including all postassessment activities, and requiring formal, written plans for corrective action when error rates exceeded certain levels.

The penalties the county assessed were for errors consistently found in three performance areas: orientating and appraising participants, determining whether participants who failed to comply with program requirements had good cause for doing so and resolving such problems, and operating the GEARS. Specifically, penalties were assessed for inadequate documentation for decisions related to good cause, inadequate documentation for exempting or deferring a participant from mandated GAIN participation; inadequate documentation regarding a participant's failure to comply with program requirements; errors in entering data into the GEARS; failure to meet required deadlines in some program areas; and failure to refer participants to required component services or to assign participants to the correct component service. In each report to MAXIMUS, the county identified the errors it found and recommended corrective actions that required a response from MAXIMUS.

To determine whether MAXIMUS is providing the GAIN case management services required by its contract, we reviewed 48 participant case files randomly selected from the five GAIN regions. We found that MAXIMUS is generally providing GAIN services to participants, but not always as quickly as required by the contract. This was particularly true in the following areas: the issuance of revised contracts to participants; determination of the cause for participants' failure to comply with program requirements; and conciliation activities when participants contested case managers' decisions. However, because of our sample size, we could not determine whether these errors would have exceeded the department's standard for an acceptable rate of error.

Chapter 3 A State Budget Restriction and County Policy Limited the County's Ability to Spend Its Total Funding of State and Federal Funds for the GAIN Program

Chapter Summary

Los Angeles County (county) is required by state law to provide the Greater Avenues for Independence (GAIN) program to all applicants for Aid to Families With Dependent Children (AFDC) eligible to participate in the GAIN program. However, a state budget restriction and a county policy of not spending county funds on programs required by the State limited the county's ability to provide the amount of GAIN services that more funding would otherwise have provided. Out of a total funding level of \$45.4 million for the provision of all GAIN services for fiscal year 1989-90, the state budget limited the county to spending no more than \$7.9 million of state and federal money for GAIN case management services. Furthermore, the county policy prevented the county from augmenting the \$7.9 million in state funding with county funds to expand case management services. Because of the county's limited case management services, it could refer only 10,600 (53 percent) people to the program out of approximately 20,000 people whom it estimated it could have served during fiscal year 1989-90. Thus, it could justify an allocation of only \$31 million of the \$45.4 million available, leaving \$14.4 million unclaimed. According to the State's GAIN operations manager, approximately \$7.2 million of the \$14.4 million in unclaimed funds was from federal funding, which cannot be reclaimed by the State.

**Restrictions
on Funding
Resulted in
Reduced
Services**

Section 11320.2 of the Welfare and Institutions Code requires the State and the counties to provide applicants for, and recipients of, AFDC with the opportunity to obtain employment by offering, under the GAIN program, a full range of employment training and supportive services, consistent with the needs of participants. For the county, this requires providing the GAIN program to an estimated 115,000 AFDC recipients who could be required to participate in the program.

During our review, we found that \$14.4 million in state and federal funding to the county for the GAIN program was not claimed because of a state imposed cap on the level of funding for case management services and a county policy of not spending county funds on programs required by the State. The state imposed cap resulted from a legislative restriction in the budget for fiscal year 1989-90 that required the termination of the county's case management contract with MAXIMUS Incorporated (MAXIMUS) before the State would release \$7.9 million in state and federal funds for the county's GAIN program. The governor subsequently deleted the language from the budget because the passage would interfere with the administration's ability to manage its programs and because the federal government had already reviewed the contract and found the county to be in compliance with federal contracting guidelines. However, at the same time, the governor limited the amount of the State's GAIN allocation that could be spent by the county for GAIN case management services during fiscal year 1989-90 to \$7.9 million. This restriction resulted in a limit on the number of GAIN case managers whom MAXIMUS could hire and, consequently, on the number of GAIN participants whom the county could manage. Because of the reduced number of participants whom the county could serve, it was able to justify an allocation of only \$31 million of \$45.4 million available from the Department of Social Services (department).

The county could have claimed the additional \$14.4 million in available state and federal funding for the GAIN program if it had chosen to supplement the state and federal funding for case management services with county funds to pay the contractor for


more case managers. Using a county estimation of the amount of state and federal funding needed for case management services to capture the full \$45.4 million in funding, we estimate that a county contribution of \$5.5 million would have been required to obtain the full amount. However, the county did not provide the additional funds needed for case management services. According to the county's chief of GAIN operations, the county did not contribute the additional funds necessary because it is the county Board of Supervisors' policy to oppose spending county funds on programs required by the State.

As a result of the restrictions placed on the funding of the GAIN program by both the State and the county, the county reported that it has referred only 10,600 (53 percent) people to the program out of approximately 20,000 people whom it estimates it could have served during fiscal year 1989-90. Moreover, according to the State's GAIN operations manager, approximately \$7.2 million of the \$14.4 million in unused funds were federal matching funds that have now been completely lost for use within the State. These funds were specifically designated for the GAIN program through the Job Opportunities and Basic Skills Training Program.

Finally, we found that restrictions had been placed in the State's budget for the County's GAIN Program for fiscal year 1990-91, limiting the county's expenditure for case management services to \$7.9 million. However, the governor deleted the restrictions from the 1990-91 budget, and the county will be able to spend the full allocation offered by the department for GAIN services.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

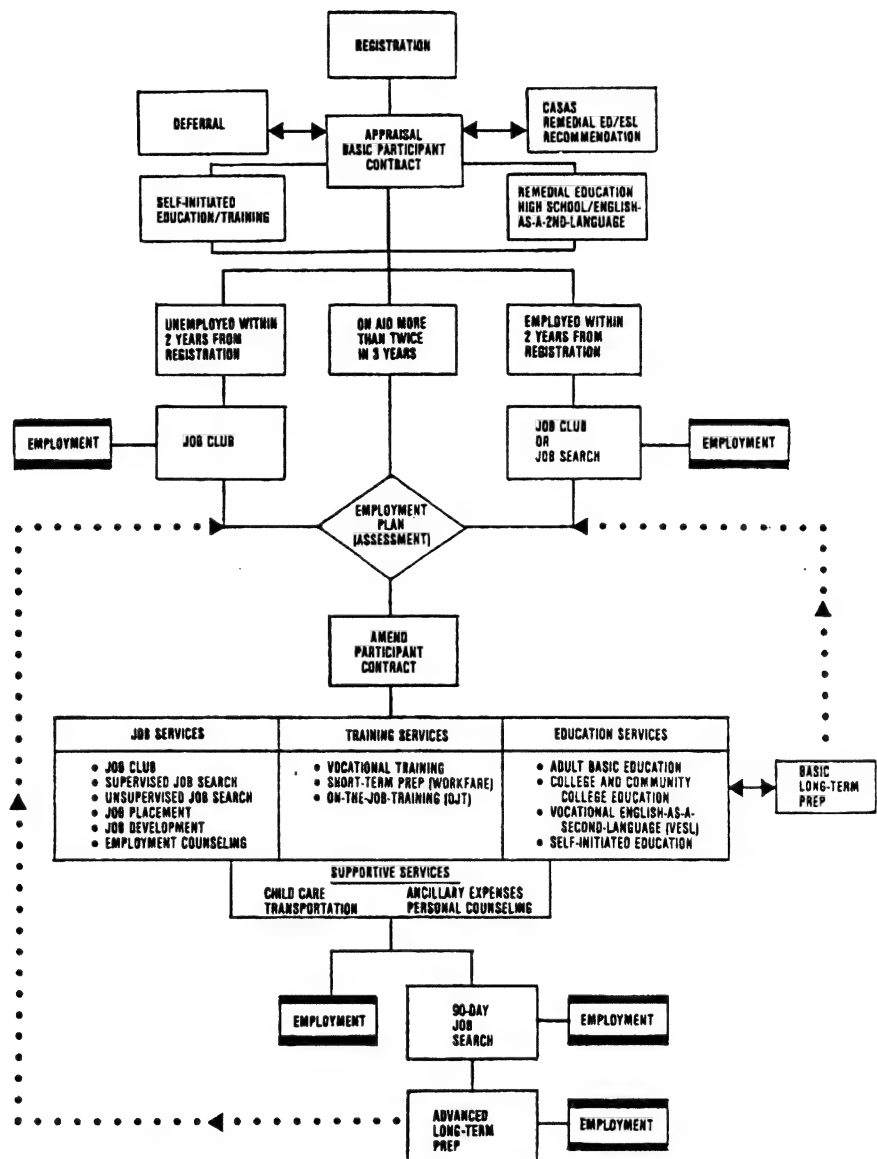
Respectfully submitted,


KURT R. SJOBERG
Auditor General (acting)

Date: February 4, 1991

Staff: Thomas A. Britting, Audit Manager
Daniel M. Claypool
William Anderson
Pamela Haynes

Appendix Flowchart Showing the Various Options Available to a Participant Moving Through the Greater Avenues for Independence Program



Source: Los Angeles County Greater Avenues for Independence Plan Update for Fiscal Year 1988-89.

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814



January 29, 1991

Mr. Kurt S. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

OFFICE OF THE AUDITOR GENERAL'S (OAG) DRAFT AUDIT REPORT P-919
ENTITLED "A REVIEW OF LOS ANGELES COUNTY'S IMPLEMENTATION OF THE
GREATER AVENUES FOR INDEPENDENCE PROGRAM"

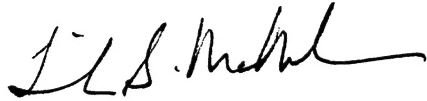
The Secretary, Health and Welfare Agency, has asked me to review and comment on the above named OAG draft audit report. In general, the State Department of Social Services (SDSS) concurs with the results contained in the audit report. Our only comment concerns the section regarding The MAXIMUS Contract presented on page 15 under the subheading "THE COUNTY'S CONTRACTOR IS PROVIDING CASE MANAGEMENT SERVICES IN ACCORDANCE WITH ITS CONTRACT."

The draft audit report states that the service period for the MAXIMUS contract "can be extended for two additional years, through July 31, 1993, if the Department of Social Services (department) grants the county a waiver to extend the contract without competitive bid." Though this is the language written in the MAXIMUS contract, we would like to clarify that specific regulatory requirements governing contract periods and renewal procedures must be met prior to an approval of any contract extension. For example, the county must submit a cost impact analysis for departmental review, hold a public hearing, and ultimately obtain its local Board of Supervisors' approval. Once all regulatory requirements have been met, the department is then able to approve the county's request for a contract extension.

The SDSS staff appreciates the many opportunities you have provided us to furnish information and comment on your audit findings during this audit. We commend the OAG for completing this very important audit.

If you have any questions regarding our comments, please contact me at (916) 445-2077, or have your staff contact Mr. Dennis Boyle, Deputy Director, Management Systems and Evaluation Division, at (916) 322-3216.

Sincerely,

A handwritten signature in black ink, appearing to read "L.S. McMahon", with a stylized, flowing script.

LINDA S. McMAHON
Director

cc: Health and Welfare Agency



EDDY S. TANAKA
DIRECTOR

**COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC SOCIAL SERVICES**

3401 RIO HONDO AVENUE, EL MONTE, CALIFORNIA 91731/TEL: (818) 572-5720
P.O. BOX 5493, EL MONTE, CALIFORNIA 91731

January 29, 1991

Kurt R. Sjoberg, Acting Auditor General
State of California
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

REVIEW OF L.A. COUNTY GAIN PROGRAM

Thank you for the opportunity to review your draft report on our GAIN Program. Based on our review and the minor changes agreed to by your staff, we have no further comments on the report. We appreciate the time and effort your staff used in completing this thorough review along with the many positive aspects they found in our program.

Should there be any questions regarding this response, please contact Charles R. Ventura of my staff at (818) 572-5654.

Very truly yours,

A handwritten signature in black ink, appearing to read "E. Tanaka", is written over a horizontal line.

EDDY S. TANAKA, DIRECTOR

EST:jrm

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps